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Attorneys For Defendants
AMERICAN EXPRESS COMPANY
and AMERICAN EXPRESS TRAVEL
RELATED SERVICES COMPANY, INC.

UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF CALIFORNIA
SAN FRANCISCO DIVISION

PRIVASYS, INC.,

Plaintiff,

v.

AMERICAN EXPRESS COMPANY
and AMERICAN EXPRESS TRAVEL
RELATED SERVICES COMPANY, INC.,

Defendants.

CIVIL ACTION NO. 08 CV 1072 SI

**DEFENDANTS' ANSWER,
COUNTERCLAIMS AND
DEMAND FOR JURY TRIAL**

1 Defendants American Express Company and American Express Travel Related Services
2 Company, Inc. (collectively “American Express”) hereby answer and counterclaim to PrivaSys,
3 Inc.'s (“PrivaSys’s”) Original Complaint And Demand For Jury Trial (“Complaint”) as follows.

4 **PARTIES**

5 1. On information and belief, American Express admits the allegations in the first
6 sentence of Complaint Paragraph 1. American Express lacks knowledge or information sufficient to
7 form a belief as to the truth of the allegations in the second sentence of Complaint Paragraph 1 and
8 therefore denies them on that basis.

9 2. American Express Company admits that it is a corporation organized under the laws
10 of the State of New York and has a principal place of business at 200 Vesey Street, New York, New
11 York 10285. Except as specifically admitted, American Express Company denies the allegations in
12 Complaint Paragraph 2.

13 3. American Express Travel Related Services Company, Inc. admits that it is a
14 corporation organized under the laws of the State of New York and has a principal place of business
15 at 200 Vesey Street, New York, New York 10285. Except as specifically admitted, American
16 Express Travel Related Services Company, Inc. denies the allegations in Complaint Paragraph 3.

17 **JURISDICTION AND VENUE**

18 4. American Express admits that PrivaSys purports to assert a cause of action for patent
19 infringement under the Patent Act, 35 U.S.C. American Express further admits that this Court has
20 subject matter jurisdiction over this action pursuant to 28 U.S.C. § 1338(a). American Express
21 further admits that venue is proper in this judicial district under 28 U.S.C. § 1391(b) and (c). Except
22 as specifically admitted, American Express denies the allegations in Complaint Paragraph 4 and
23 further denies that there is any factual or legal basis for PrivaSys’s claim.

24 5. American Express denies that it provides infringing products and/or services in the
25 Northern District of California, or anywhere else within the United States. American Express admits
26 that it has engaged in non-infringing activities in this judicial district and further consents to personal
27 jurisdiction in this judicial district for purposes of this action. Except as specifically admitted,
28 American Express denies the allegations in Complaint Paragraph 5.

INTRADISTRICT ASSIGNMENT

6. American Express admits that this is an Intellectual Property Action. Except as specifically admitted, American Express denies the allegations in Complaint Paragraph 6.

BACKGROUND

7. American Express denies the allegations in the first sentence of Complaint Paragraph 7. American Express admits that some of its payment cards may have an account number, cardholder information and a security code printed on it and an encoded magnetic stripe on the back of it. American Express admits that devices such as key-fobs, as the term is understood, have been used to conduct payment transactions. American Express further admits that PrivaSys purports to use the term “card” in the Complaint to include fobs and the term “device” to include credit, charge, and debit cards with an encoded magnetic stripe. Except as specifically admitted, American Express denies the allegations in Complaint Paragraph 7.

8. American Express admits that some merchants have magnetic card readers that read encoded data from a payment card, and that the data can be transmitted to an issuing financial institution. American Express admits that some payment cards have an encoded magnetic stripe with Track 1 data, as that term is understood, and may contain the customer’s name, account number, expiration date, and discretionary data. American Express further admits that some payment cards have an encoded magnetic stripe with Track 2 data, as that term is understood, and may contain an account number, expiration date, and discretionary data. Except as specifically admitted, American Express lacks knowledge or information sufficient to form a belief as to the allegations in Complaint Paragraph 8 and therefore denies them on that basis.

9. American Express lacks knowledge or information sufficient to form a belief as to the allegations in Complaint Paragraph 9 and therefore denies them on that basis.

10. American Express admits that American Express offers a contactless payment card that contains a radio frequency antenna and embedded microchip that can communicate with a contactless reader when placed in proximity to the reader. Except as specifically admitted, American Express lacks knowledge or information sufficient to form a belief as to the allegations in Complaint Paragraph 10 and therefore denies them on that basis.

11. American Express admits that the term "smart card," as that term is understood, may be a payment card with an embedded microchip. On information and belief, MasterCard and Visa are involved in a joint venture relating to smart cards known as EMVCo. Except as specifically admitted, American Express lacks knowledge or information sufficient to form a belief as to the allegations in Complaint Paragraph 11 and therefore denies them on that basis.

12. American Express lacks knowledge or information sufficient to form a belief as to the allegations in Complaint Paragraph 12 and therefore denies them on that basis.

13. American Express lacks knowledge or information sufficient to form a belief as to the allegations in Complaint Paragraph 13 and therefore denies them on that basis.

14. American Express lacks knowledge or information sufficient to form a belief as to the allegations in Complaint Paragraph 14 and therefore denies them on that basis.

PrivaSys Alleged Solution to Payment Card Fraud

15. American Express denies the allegations in the third and fourth sentences of Complaint Paragraph 15. American Express lacks knowledge or information sufficient to form a belief as to the remaining allegations in Complaint Paragraph 15 and therefore denies them on that basis.

16. American Express lacks knowledge or information sufficient to form a belief as to the allegations in Complaint Paragraph 16 and therefore denies them on that basis.

17. American Express lacks knowledge or information sufficient to form a belief as to the allegations in Complaint Paragraph 17 and therefore denies them on that basis.

18. American Express lacks knowledge or information sufficient to form a belief as to the allegations in Complaint Paragraph 18 and therefore denies them on that basis.

19. American Express lacks knowledge or information sufficient to form a belief as to the allegations in Complaint Paragraph 19 and therefore denies them on that basis.

The PrivaSys Patent

20. American Express admits that a copy of U.S. Patent No. 7,195,154 ("the '154 patent") was attached as Exhibit A to the Complaint, and that, on its face, the '154 patent indicates that it issued on March 27, 2007 to inventor Larry Routhenstein. Except as specifically admitted,

1 American Express lacks knowledge or information sufficient to form a belief as to the allegations in
2 Complaint Paragraph 20 and therefore denies them on that basis.

3 21. American Express admits that the '154 patent lists 35 claims, and has the title
4 "Method For Generating Customer Secure Card Numbers." Except as specifically admitted,
5 American Express denies the allegations in Complaint Paragraph 21.

6 22. American Express admits that it has not taken a license to the '154 patent. Except as
7 specifically admitted, American Express lacks knowledge or information sufficient to form a belief
8 as to the allegations in Complaint Paragraph 22 and therefore denies them on that basis.

9 **American Express's Allegedly Infringing Services**

10 23. American Express denies that the '154 patent was "known" before it issued on March
11 27, 2007 and denies prior awareness of the application from which it issued. American Express
12 admits that it became aware of the '154 patent during licensing discussions with counsel for
13 PrivaSys. Except as specifically admitted, American Express denies the allegations in Complaint
14 Paragraph 23.

15 24. American Express admits that it operates a payment card network and that it issues
16 payment cards. American Express further admits that American Express-branded cards are issued
17 by American Express and third-party banks or other institutions, and that American Express-branded
18 cards are accepted on the American Express network and can be used to purchase goods and
19 services. In 2006, American Express's network processed more than \$560 billion in transactions,
20 and American Express-branded cards approximated 78 million total cards-in-force. Except as
21 specifically admitted, American Express denies the allegations in Complaint Paragraph 24.

22 25. American Express admits that American Express has issued payment cards with a
23 contactless technology marketed as ExpressPay. American Express admits that PrivaSys purports to
24 reference American Express cards and devices and ExpressPay cards and devices to include all
25 contactless cards and devices issued by American Express and all cards and devices issued by third-
26 party banks or other institutions that bear the logos American Express, ExpressPay or other logos
27 associated with American Express. American Express payment cards with ExpressPay contain a
28 radio frequency antenna and embedded microchip that enable the card to communicate with a

1 contactless reader when held in close proximity to the reader. Except as specifically admitted,
2 American Express denies the allegations in Complaint Paragraph 25.

3 26. American Express admits that it has used a variety of contactless payment protocols
4 since 1999 or earlier. American Express admits that at least one of American Express's contactless
5 payment protocols includes an encrypted transaction-specific value that may be communicated to a
6 contactless reader. American Express is able to verify each transaction. Except as specifically
7 admitted, American Express denies the allegations in Complaint Paragraph 26.

8 27. American Express denies the allegations in Complaint Paragraph 27.

9 28. American Express denies the allegations in Complaint Paragraph 28.

10 **COUNT I**

11 29. American Express denies the allegations in Complaint Paragraph 29.

12 30. American Express denies the allegations in Complaint Paragraph 30.

13 31. American Express denies the allegations in Complaint Paragraph 31.

14 32. American Express denies the allegations in Complaint Paragraph 32.

15 33. American Express denies the allegations in Complaint Paragraph 33.

16 34. American Express denies the allegations in Complaint Paragraph 34.

17 **ANSWER TO PLAINTIFF'S PRAYER FOR RELIEF**

18 35. American Express denies that PrivaSys is entitled to any relief whatsoever from
19 American Express or this Court, either as requested in the Complaint or otherwise.

20 **GENERAL DENIAL**

21 36. American Express further denies each and every allegation contained in the
22 Complaint to which American Express has not specifically responded.

23 **AFFIRMATIVE DEFENSES**

24 37. American Express alleges and asserts the following defenses in response to the
25 allegations in PrivaSys's Complaint, undertaking the burden of proof only as to those defenses
26 deemed affirmative defenses by law, regardless of how such defenses are denominated herein. In
27 addition to the affirmative defenses set forth below, American Express specifically reserves all rights
28 to allege additional affirmative defenses that become known through the course of discovery.

First Affirmative Defense

38. The Complaint fails to state a claim upon which relief may be granted.

Second Affirmative Defense

39. American Express has not directly or indirectly infringed, and is not directly or indirectly infringing, any valid and enforceable claim of U.S. Patent No. 7,195,154 (“the ’154 patent”), either literally or under the doctrine of equivalents.

Third Affirmative Defense

40. The claims of the ’154 patent are invalid for failure to meet the conditions of patentability set forth in part II of Title 35 of the United States Code, including without limitation 35 U.S.C. §§ 101, 102, 103 and/or 132.

Fourth Affirmative Defense

41. The claims of the ’154 patent are invalid for failure to comply with one or more of the requirements of 35 U.S.C. § 112.

Fifth Affirmative Defense

42. American Express has not willfully infringed and is not willfully infringing any valid, enforceable claim of the ’154 patent.

Sixth Affirmative Defense

43. PrivaSys is estopped, based on statements, representations and admissions made during prosecution of the application that led to the ’154 patent, from asserting any interpretation of the claims of the ’154 patent that would be broad enough to cover any of American Express's products or methods alleged to infringe the ’154 patent, either literally or under the doctrine of equivalents.

Seventh Affirmative Defense

44. Upon information and belief, the ’154 patent is unenforceable due to inequitable conduct by PrivaSys and persons associated with PrivaSys.

45. On September 21, 2001, PrivaSys filed U.S. patent application number 09/960,715 (“the ’715 application”), titled “Method For Generating Customer Secure Card Numbers,” which subsequently issued as the ’154 patent. Mr. Larry Routhenstein is the sole named inventor on the

1 '154 patent.

2 46. On September 21, 2001, PrivaSys also filed U.S. patent application number
3 09/960,714 ("the '714 application"), titled "Method For Generating Customer Secure Card Numbers
4 Subject To Use Restrictions By An Electronic Card," which subsequently issued as U.S. Patent No.
5 6,805,288 ("the '288 patent"). Messrs. Larry Routhenstein, Roy Anderson, William Bryant, and
6 Jacob Wong are the named inventors on the '288 patent.

7 47. The subject matter of the '154 and '288 patents are substantially the same, and both
8 patents contain substantially similar specifications. In the "Cross Reference To Related
9 Applications" sections of the '154 and '288 patents, both patents expressly state that the patent
10 applications are related to each other. During the prosecution of the '715 application, the Patent
11 Office repeatedly rejected certain of the pending claims of the '715 application for double patenting
12 in view on the copending '714 application. To overcome these double-patenting rejections,
13 Applicants filed a terminal disclaimer relinquishing any term of the '715 application, which issued
14 as the '154 patent, that would extend beyond the expiration date of the '288 patent (which issued
15 from the '714 application).

16 48. The '288 patent has two independent method claims generally directed to providing a
17 secure transaction by generating a Secure Card Number. The '154 patent has five independent
18 method claims, each generally directed to providing a secure transaction by generating a Secure
19 Card Number. During the prosecution of the '715 application, Applicant amended the '715
20 application to include claims that were canceled in the copending '714 application.

21 49. Upon information and belief, during the pendency of the '715 application, PrivaSys
22 was litigating claims related to the subject matter of the '288 patent and intentionally withheld this
23 material information from the United States Patent And Trademark Office ("the Patent Office"). In
24 MasterCard International, Inc. v. PrivaSys, Inc., Case No. 05-8511 CLB (S.D.N.Y. filed Oct. 3,
25 2005), PrivaSys alleged, among other things, that MasterCard misappropriated PrivaSys's
26 technology described in the '288 patent. PrivaSys further alleged that MasterCard incorporated the
27 technology from PrivaSys's '288 patent into MasterCard's U.S. Patent No. 6,657,566 ("the '566
28 patent"), thereby raising questions regarding inventorship of the subject matter. The MasterCard v.

1 PrivaSys action was dismissed on August 31, 2006.

2 50. The '715 application was filed on September 21, 2001 and issued as the '154 patent
3 on March 27, 2007 and was pending before the Patent Office for the entirety of the MasterCard v.
4 PrivaSys action.

5 51. Under 37 C.F.R. § 1.56, each individual associated with the filing and prosecution of
6 a patent application has a duty of candor and good faith in dealing with the Patent Office, which
7 includes a duty to disclose to the Patent Office all information known to that individual to be
8 material to patentability.

9 52. Section 2001.06(c) of the Manual of Patent Examining Procedure requires that where
10 the subject matter for which a patent is being sought is or has been involved in litigation, the
11 existence of such litigation and any other material information arising from the action must be
12 brought to the attention of the Patent Office.

13 53. Upon information and belief, each individual associated with the prosecution of the
14 '154 patent — in particular, at least inventor Larry Routhenstein and attorneys Roy Anderson and
15 Paul Hickman — had a duty of candor to the Patent Office, was aware of the MasterCard v. PrivaSys
16 litigation and failed to disclose it to the Patent Office with the intent to deceive the examiner into
17 allowing the '154 patent to issue.

18 **Eighth Affirmative Defense**

19 54. Upon information and belief, PrivaSys is barred by the doctrine of prosecution laches
20 from enforcing the claims of the '154 patent against American Express. In particular, the named
21 inventor and attorneys involved in the filing and prosecution of the '154 patent systematically
22 delayed the prosecution of Claim 27 and claims that depend from it.

23 55. On September 21, 2001, PrivaSys filed U.S. patent application number 09/960,715
24 (“the '715 application”), titled “Method For Generating Customer Secure Card Numbers,” which
25 subsequently issued as the '154 patent. The '715 application as originally filed did not include
26 Claim 27.

27 56. PrivaSys's filing of the '715 application on September 21, 2001 omitted the basic
28 filing fee, and oath or declaration. On March 27, 2003, the '715 application was published without

1 Claim 27. On November 5, 2003, the examiner indicated that Claims 7-22 were allowable. Instead
2 of paying the issue fee, Applicant filed an amendment on March 22, 2004 adding new claims 23-26
3 that corresponded to canceled claims in the copending '714 application. Applicant again failed to
4 sign the amendment and submit the appropriate fee, causing further delay.

5 57. On October 21, 2005, Applicant amended the '715 application adding Claim 27, and
6 claims 28 to 35 that depend from it. Upon information and belief, PrivaSys engaged in a deliberate
7 and systematic delay of more than four years — from September 21, 2001 to October 21, 2005 — to
8 await intervening developments in the payment card industry before filing Claim 27 and its
9 dependent claims. The '715 application issued as the '154 patent on March 27, 2007, more than five
10 years after its filing date.

11 58. PrivaSys alleges that the '154 patent contains 35 patent claims, including claims 27 to
12 35 that were added in October 2005, that purportedly cover a unique and novel method for
13 generating and validating a dynamic code. PrivaSys's priority date for each claim of the '154 patent
14 is purportedly the September 21, 2001 filing date.

15 59. Since 1999, American Express has devoted significant resources to developing and
16 expanding its contactless payment business, including from 2001 to 2005.

17 60. Upon information and belief, those involved with the filing and prosecution of the
18 '154 patent engaged in a deliberate plan to delay prosecution and thereby lengthen the period of time
19 available to add new claims. The unreasonable and unexplained delay in prosecuting Claim 27 and
20 its dependent claims has prejudiced American Express, and therefore the '154 patent should be
21 rendered unenforceable against American Express due to prosecution laches.

22 **Ninth Affirmative Defense**

23 61. Upon information and belief, likely to have evidentiary support after a reasonable
24 opportunity for further investigation or discovery, the '154 patent is invalid due to improper
25 inventorship. Upon information and belief, likely to have evidentiary support after a reasonable
26 opportunity for further investigation or discovery, at least one of Messrs. Roy Anderson, William
27 Bryant and Jacob Wong, who are the named inventors on the '288 patent, should have also been
28 named inventors of the '154 patent and were wrongly and deceptively omitted from the '154 patent.

Tenth Affirmative Defense

62. PrivaSys is barred by one or more of the doctrines of laches, estoppel, waiver, acquiescence, and unclean hands from enforcing the claims of the '154 patent.

Eleventh Affirmative Defense

63. PrivaSys cannot satisfy the requirements applicable to its request for injunctive relief because, at a minimum, any alleged injury to PrivaSys is not immediate or irreparable, PrivaSys has an adequate remedy at law and PrivaSys has alleged that it has licensed the '154 patent to Visa and MasterCard, confirming the impropriety of a selective injunction against American Express.

COUNTERCLAIMS

American Express counterclaims against PrivaSys as follows:

1. American Express Company ("American Express") is a New York corporation having a principal place of business at 200 Vesey Street, New York, New York 10285.
2. American Express Travel Related Services Company, Inc. is a New York corporation having a principal place of business at 200 Vesey Street, New York, New York 10285.
3. Upon information and belief, PrivaSys, Inc. ("PrivaSys") is a Delaware corporation having its principal place of business in Newbury Park, California.
4. This Court has subject matter jurisdiction over these counterclaims pursuant to 28 U.S.C. §§ 1331, 1338 and 2201.
5. By filing its Complaint, PrivaSys has consented to personal jurisdiction in this Court.
6. Venue is proper in this District under 28 U.S.C. §§ 1391(b) and 1400.

COUNT I

DECLARATORY JUDGMENT OF NON-INFRINGEMENT, INVALIDITY AND UNENFORCEABILITY OF U.S. PATENT NO. 7,195,154

7. American Express repeats Counterclaim Paragraphs 1-6 as if fully set forth herein.
8. United States Patent No. 7,195,154 ("the '154 patent") was issued by the United States Patent and Trademark Office on March 27, 2007. PrivaSys claims to own all rights in and to the '154 patent.
9. PrivaSys has sued American Express for alleged infringement of the '154 patent.

1 10. An actual controversy exists between American Express and PrivaSys regarding non-
2 infringement, invalidity and unenforceability of the '154 patent within the meaning of the
3 Declaratory Judgment Act, 28 U.S.C. § 2201 *et seq.*

4 11. American Express has not directly or indirectly infringed, and is not directly or
5 indirectly infringing, any valid, enforceable claim of the '154 patent either literally or under the
6 doctrine of equivalents.

7 12. The '154 patent is invalid for failing to satisfy the conditions of patentability set forth
8 in the patent laws of the United States, including without limitation, 35 U.S.C. §§ 101, 102, 103, 112
9 and/or 132.

10 13. American Express repeats Affirmative Defense Paragraphs 44 through 53 as if fully
11 set forth herein.

12 14. The '154 patent is unenforceable due to inequitable conduct by PrivaSys and persons
13 associated with PrivaSys.

14 15. American Express repeats Affirmative Defense Paragraphs 54 through 60 as if fully
15 set forth herein.

16 16. The '154 patent is unenforceable due to prosecution laches by PrivaSys and persons
17 associated with PrivaSys.

18 17. American Express is entitled to a judicial declaration that the '154 patent is not
19 infringed by American Express, is invalid and is unenforceable.

20 18. This is an exceptional case under 35 U.S.C. § 285 and American Express is therefore
21 entitled to reimbursement of its costs and reasonable attorneys' fees in connection with this action.

22 WHEREFORE, American Express respectfully requests judgment against PrivaSys as
23 follows:

- 24 A. That PrivaSys take nothing by its Complaint in this action;
25 B. That the Court enter judgment against PrivaSys and in favor of American Express,
26 and that the Complaint in this action be dismissed in its entirety with prejudice;
27 C. That the Court enter a declaratory judgment that American Express does not infringe
28

1 and has not infringed the '154 patent;

2 D. That the Court enter a declaratory judgment that PrivaSys's '154 patent is invalid;

3 E. That the Court enter a declaratory judgment that PrivaSys's '154 patent is
4 unenforceable;

5 F. That the Court deem this an exceptional case under 35 U.S.C. § 285 and award
6 American Express its costs and reasonable attorneys' fees; and

7 G. That the Court award American Express any other or further relief that the Court
8 deems just and proper.

9 **DEMAND FOR JURY TRIAL**

10 Pursuant to Rule 38 of the Federal Rules of Civil Procedure, American Express hereby
11 demands a trial by jury in this action on all the issues so triable.

1 DATED: June 18, 2008

Respectfully submitted by,

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4 By: /s/ Perry Clark
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